

Message Text

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ACTION MMO-04

INFO OCT-01 EUR-12 ISO-00 SP-02 ICA-20 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 /107 W
-----006370 140833Z /21

R 131356Z APR 78
FM AMEMBASSY LISBON
TO SECSTATE WASHDC 5423
INFO AMEMBASSY BRUSSELS
AMEMBASSY PARIS
AMEMBASSY MADRID
AMCONSUL OPORTO
AMCONSUL PONTA DELGADA

UNCLAS SECTION 1 OF 4 LISBON 2798

BRUSSELS FOR USEC
PARIS FOR OECD

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TAGS: EFIN, ECON, PO
SUBJ: CERP 0200 - GOP'S 1978 BUDGET

REF: A) LISBON A-16 B) LISBON 2016

1. SUMMARY: THE MARCH GOP BUDGET PRESENTATION FOR 1978
PROPOSES A STAGNANT LEVEL OF OVERALL EXPENDITURES, IN REAL
TERMS, AND AN ESSENTIALLY BALANCED CURRENT ACCOUNT FOR TOTAL
PUBLIC SECTOR (INCLUDES CENTRAL AND LOCAL GOVERNMENTS, SOCIAL
SECURITY, AND AUTONOMOUS FUNDS AND AGENCIES, BUT EXCLUDES
PUBLIC ENTERPRISES). CENTRAL GOVERNMENT OUTLAYS ALSO
WOULD REMAIN VIRTUALLY IN REAL TERMS STAGNANT WHILE EXPENDITURES OF
OTHER PUBLIC SECTOR COMPONENTS DECLINE. CENTRAL GOVERNMENT
OUTLAYS ARE PROJECTED TO GROW BY ALMOST 32 PERCENT, TO
208.6 BILLION ESCUDOS US(US\$5.06 BILLION AT ESC 41.233/
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DOLLARS), (SEE FOOTNOTE E, TABLE III) EXCLUDING PUBLIC DEBT
INTEREST PAYMENTS, INCREASE IS ABOUT 25 PERCENT, OR BELOW
THE PROBABLE INFLATION RATE FOR 1978. DEFICIT IS PROJECTED AT
60.5 BILLION ESCUDOS (US\$1.47 BILLION), 25 PERCENT
HIGHER THAN LAST YEAR'S 48.4 BILLION (\$1.26 BILLION AT
ESC.38.277/DOLLAR). HOWEVER, GOP BUDGET OFFICIALS
EXPECT ACTUAL 1978 CENTRAL GOVERNMENT DEFICIT WILL BE ABOUT

50 BILLION ESCUDOS (\$1.21 BILLION), OR 10 BILLION ESCUDOS LOWER THAN FORESEEN IN BUDGET DOCUMENT.
END SUMMARY.

2. 1978 BUDGET POLICY: ACCORDING TO GOP'S LATEST BUDGET MESSAGE, FOLLOWING OBJECTIVES UNDERLIE 1978 BUDGET POLICY:

- ESTABLISH CURRENT ACCOUNT BALANCE FOR TOTAL PUBLIC SECTOR.
- MAINTAIN REAL PUBLIC CONSUMPTION AT 1977 LEVELS,
A AND
- RESTRAIN PUBLIC BORROWING FROM BANKING SECTOR.

3. TOTAL PUBLIC SECTOR: PUBLIC SECTOR CONSOLIDATED BUDGET - WHICH AGGREGATES BUDGETS OF AUTONOMOUS FUNDS, AUTONOMOUS SERVICES, LOCAL GOVERNMENTS, SOCIAL SECURITY, AND CENTRAL GOVERNMENT ON NATIONAL ACCOUNTS BASIS - SHOWS "CURRENT REVENUES" RISING BY 30.1 PERCENT, FROM 173.6 BILLION ESCUDOS IN 1977 TO 225.9 BILLION IN 1978 (TABLES I AND II). (UNLESS OTHERWISE SPECIFIED, ALL COMPARISONS ARE BETWEEN MARCH BUDGET PROPOSAL AND 1977 PRELIMINARY RESULTS). "CURRENT OUTLAYS" ARE PROJECTED TO RISE 26.7 PERCENT, FROM 182.1 BILLION IN 1977 TO 230.8 BILLION ESCUDOS IN 1978. THE 1978 CURRENT ACCOUNT DEFICIT OF 4.9 BILLION ESCUDOS IS THUS EXPECTED TO BE MUCH SMALLER THAN THE DEFICIT ESTIMATED FOR 1977. THE OVERALL PUBLIC SECTOR DEFICIT
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IS PROJECTED AT 60.3 BILLION ESCUDOS (US \$1.5 BILLION AT ESC.41.233/DOLLAR), COMPARED TO 44.7 BILLION ESCUDOS (US \$1.2 BILLION AT ESC.38.277/DOLLAR) IN 1977. GOP ANTICIPATES, HOWEVER, THAT OUTLAYS WILL FALL WELL BELOW PROJECTED LEVELS AND THAT THE 1978 DEFICIT WILL ACTUALLY APPROACH 50 BILLION ESCUDOS (US\$1.21BILLION).

4. CENTRAL GOVERNMENT BUDGET (CASH FLOW BASIS): OUTLAYS OF CENTRAL GOVERNMENT (I.E., EXCLUDING LOCAL GOVERNMENTS, THE FUNDS, AGENCIES, AND SOCIAL SECURITY) ARE PROJECTED AT 219.6 BILLION ESCUDOS (US \$5.3 BILLION), OR ALMOST 39 PERCENT HIGHER THAN LAST YEAR'S RESULTS. HOWEVER, THIS INCREASE IS PARTLY DUE TO INCLUSION OF SOCIAL MEDICAL SERVICES (11 BILLION ESCUDOS), WHICH ARE TRANSFERRED TO CENTRAL GOVERNMENT BUDGET IN 1978. THESE SERVICES ARE NOT INCLUDED IN THE 1977 DATA. EXCLUDING THOSE SERVICES, INCREASE IN GOP OUTLAYS WOULD BE ABOUT 32 PERCENT, OR ABOUT THE SAME AS PROBABLE 1978 INFLATION RATE. EXCLUDING ALSO PUBLIC DEBT INTEREST PAYMENTS, WHICH ARE MORE THAN DOUBLE LAST YEAR'S TOTAL, THE INCREASE IN OVERALL OUTLAYS IS ABOUT 25 PERCENT. WITHIN TOTAL OUTLAYS, PROJECTED CURRENT

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OUTLAYS ARE 29 PERCENT HIGHER THAN 1977 RESULTS, OR
STAGNANT IN REAL TERMS. IF INFLUENCE OF INTEREST PAYMENTS
IS REMOVED, CURRENT OUTLAYS DECLINE. IN FACT, OUTLAYS
FOR PERSONNEL, GOODS, AND SERVICES DECLINE IN NOMINAL
TERMS. PROPOSED CAPITAL OUTLAYS ARE, IN NOMINAL TERMS,
SIGNIFICANTLY (37 PERCENT) MORE THAN 1977 RESULTS.

5. REVENUES: IN 1978 ARE PROJECTED AT 159.1 BILLION
ESCUDOS (US \$3.9 BILLION), AN ALMOST 45 PERCENT INCREASE
OVER 1977, REFLECTING HIGHER TAX LEVIES, INFLATION,
ESCUDO DEVALUATION, AND TRANSFER OF 6 BILLION ESCUDOS
FROM SOCIAL SECURITY SYSTEM FOR SOCIAL MEDICAL SERVICES
(SEE TABLE III, FOOTNOTE D).

6. THE 1978 CENTRAL GOVERNMENT DEFICIT IS PROJECTED AT
60.5 BILLION ESCUDOS, 25.1 PERCENT HIGHER THAN 1977 PROVISIONAL
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RESULTS. BASED ON RECENT EXPERIENCE, THE GOP EXPECTS TO COVER 8 BILLION OF THIS AMOUNT THROUGH THE SALE OF TREASURY BONDS TO PRIVATE AND NON-BANKING INVESTORS. FOREIGN CREDITS OF 4.6 BILLION ESCUDOS WILL BE APPLIED TO INVESTMENTS, PARTICULARLY IN HOUSING, PUBLIC WORKS, EDUCATION, AND AGRICULTURE (ANOTHER 1 BILLION ESCUDOS OF FOREIGN CREDIT IS TO BE USED FOR ASSISTANCE TO REFUGEES FROM FORMER PORTUGUESE AFRICAN COLONIES). THE BANKING SECTOR WILL, THEREFORE, HAVE TO FINANCE THE REMAINING 51.1 BILLION ESCUDOS. HOWEVER, RECENT BUDGET PERFORMANCE SUGGESTS THAT PROPOSED LEVEL OF EXPENDITURES WILL NOT BE REACHED: LAST YEAR GOP OUTLAYS FELL SHORT OF AUTHORIZED LEVELS BY 7.9 PERCENT (SEE REF A). BASED ON THAT EXPERIENCE AND ON CURRENT ASSESSMENT, GOP OFFICIALS EXPECT 1978 RESULTS WILL AGAIN FALL SHORT OF PROJECTED OUTLAYS BY SEVERAL BILLION ESCUDOS. IN DISCUSSIONS WITH IMF, GOP OFFICIALS ARE ASSUMING ACTUAL DEFICIT WILL APPROACH ONLY SOME 50 BILLION ESCUDOS. AS SUCH IT WOULD BE ONLY 3.3 PERCENT ABOVE 1977 DEFICIT OF 48.4 BILLION ESCUDOS.

7. ASSEMBLY VOTE ON THE BUDGET IS EXPECTED APRIL 13, GOVERNMENT MAJORITY ASSURES PASSAGE.

8. AIRGRAMM FOLLOWS, WITH COMMENT.

- TABLE I -

PORTUGAL'S 1978 CONSOLIDATED PUBLIC SECTOR BUDGET (A)
(BILLIONS OF ESCUDOS)

	SOCIAL		TOTAL	
GOP	SECURITY		PUBLIC SECTOR	
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	1977(B)	1978(C)	1977(B)	1978(C)	1977(B)	1978(C)
REVENUES:	101.6	147.9	52.6	63.9	178.9	229.6
CURRENT	94.0	139.0	52.4	62.1	173.6	225.9
CAPITAL	7.6	8.9	0.2	1.8	5.3	3.7
OUTLAYS:	146.9	202.6	56.7	60.4	223.6	289.9
CURRENT	111.3	155.4	56.7	60.4	182.1	230.8
CAPITAL(D)	35.6	47.2	-	-	41.5	59.1
BALANCE:	-45.3	-54.7	-4.1	3.5	-44.7	-60.3
CURRENT	-17.3	-16.4	-4.3	1.7	-8.5	-4.9
CAPITAL	-28.0	-38.3	0.2	1.8	-36.2	-55.4

SOURCE: MARCH 1978 GOP BUDGET PROPOSAL.

(A) ON A NATIONAL CACCOUNTS (GNP) BASIS; EXCLUDES

NATIONALIZED ENTERPRISES. DATA IN THIS TABLE ARE NOT
DIRECTLY COMPARABLE TO TABLE III.

(B) 1977 PROVISIONAL RESULTS.

(C) 1978 BUDGET PROPOSAL

(D) INCLUDES LOANS AND INCREASES IN CAPITAL ASSETS

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- TABLE II -

PORTUGAL'S 1978 CONSOLIDATED PUBLIC SECTOR BUDGET (A)
(BILLIONS OF DOLLARS) (B)

	SOCIAL		TOTAL			
	GOP	SECURITY	PUBLIC SECTOR			
	1977(C)	1978(D)	1977(C)	1978(D)	1977(C)	1978(D)
REVENUES:	2.66	3.59	1.375	1.55	4.67	5.57
CURRENT	2.46	3.37	1.37	1.51	4.53	5.48
CAPITAL	9.20	0.22	9.005	9.04	0.14	0.09
OUTLAYS:	3.84	4.92	1.48	1.47	5.84	7.03
CURRENT	2.91	3.77	1.48	1.47	4.75	5.60
CAPITAL(E)	0.93	1.15	-	-	1.09	1.43

BALANCE: -1.18 -1.33 -0.105 0.08 -1.17 -1.46
 CURRENT -0.45 -0.40 -0.11 0.04 -0.22 -0.12
 CAPITAL -0.73 -0.93 0.005 0.04 -0.95 -1.34
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SOURCE: MARCH 1978 GOP BUDGET PROPOSAL.

(A) ON A NATIONAL ACCOUNTS (GNP) BASIS; EXCLUDES
 NATIONALIZED ENTERPRISES. DATA IN THIS TABLE ARE NOT
 DIRECTLY COMPARABLE TO TABLE III.

(B) EXCHANGE RATES USED: 1977-US\$1 - ESC. 38.277;
 1978 - US\$1 - ESC. 41.233

(C) 1977 PROVISIONAL RESULTS

(D) 1978 BUDGET PROPOSAL

(E) INCLUDES LOANS AND INCREASES IN CAPITAL ASSETS.

- TABLE III -

PORTUGAL'S 1978 CENTRAL GOVERNMENT BUDGET (A)
 (BILLION OF ESCUDOS)

	1977	1978	1978	PERCENT	
	PROVISIONAL	OCT. 1977	MARCH 15	CHANGES	
	RESULTS	SUBMISSION	SUBMISSION		
	(1)	(2)	(3)	(3):(1)	
REVENUES:	109.99	164.15	159.07(D)	44.6(F)	
CURRENT(B)	98.73	149.82	144.62(D)	46.5	
TAXATION	(91.64)	(131.66)	(125.27)	(36.7)	
CAPITAL	5.23	6.51	5.94	13.6	
OTHER	6.03	7.02	8.51	41.1	
OUTLAYS:	158.35(C)	222.78	219.57(E)	38.7(F)	
CURRENT(B)	114.42	155.49	158.72(E)	38.7	
SUBSIDIES	(8.30)	(10.61)	(10.58)	(27.5)	
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PUBLIC DEBT	(9.70)	(19.67)	(23.11)	(138.2)
CAPITAL	39.12	60.47	53.57	36.9
OTHER	4.81	6.82	7.28	51.4
DEFICIT:	48.36	58.63	60.50	25.1

SOURCE: MARCH 1978 GOP BUDGET PROPOSAL

(A) PRESENTED ON PUBLIC ACCOUNTS (I.E., TRADITIONAL) BASIS

(B) EXCLUDES SOCIAL SECURITY TAXES AND OUTLAYS

(C) EXCLUDES 0.18 BILLION ESCUDOS OF OBLIGATED BUT
UNPAID APPROPRIATIONS.

(D) INCLUDES TRANSFER OF 6 BILLION ESCUDOS FROM SOCIAL SECURITY
SYSTEM FOR SOCIAL-MEDICAL SERVICES.
(SEE ALSO FOLLOWING FOOTNOTE).

(E) INCLUDES 11 BILLION ESCUDOS FOR SOCIAL-MEDICAL SERVICES.
THESE SERVICES ARE TRANSFERRED TO THE CENTRAL GOVERNMENT
BUDGET IN 1978 FOR THE FIRST TIME.

(F) EXCLUDING SOCIAL-MEDICAL SERVICES, WHICH ARE NOT INCLUDED
IN 1977 PRELIMINARY RESULTS, INCREASE IS 31.7 PERCENT
IN OUTLAYS AND 39.2 PERCENT IN REVENUES.

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- TABLE IV -
PORTUGAL'S CENTRAL GOVERNMENT BUDGET (A)

(BILLION OF DOLLARS) (B)

	1977	1978	1978	PERCENT
PROVISIONAL RESULTS	OCT. 1977	MARCH 15	CHANGES	
	SUBMISSION	SUBMISSION		
(1)	(2)	(3)	(3):(1)	
REVENUES:	2.88	3.98	3.86(E)	34.0(G)
CURRENT(C)	2.58	3.63	3.51(E)	36.0
TAXATION	(2.39)	(3.19)	(3.04)	(27.2)
CAPITAL	0.14	0.16	0.14	-
OTHER	0.16	0.19	0.21	31.3
OUTLAYS:	4.14(D)	5.40	5.33(F)	28.7(G)
CURRENT (C)	2.99	3.77	3.85(F)	28.8
SUBSIDIES	(9.22)	(0.26)	(0.26)	(18.2)
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PUBLIC DEBT	(0.25)	(0.48)	(0.56)	(124.0)
CAPITAL	1.02	1.47	1.30	27.5
OTHER	0.13	0.16	0.18	38.5
DEFICIT:	1.26	1.42	1.47	16.7

SOURCE: MARCH 1978 GOP BUDGET PROPOSAL

(A) PRESENTED ON PUBLIC ACCOUNTS (I.E., TRADITIONAL) BASIS.

(B) EXCHANGE RATES USED: 1977 - US\$1 - ESC. 38.277;
1978 - US\$1 - ESC. 41.233

(C) EXCLUDES SOCIAL SECURITY TAXES AND OUTLAYS

(D) EXCLUDES \$4.7 MILLION OF OBLIGATED BUT UNPAID
APPROPRIATIONS.

(E) INCLUDES TRANSFER OF \$145.5 MILLION FORM SOCIAL SECURITY
SYSTEM FOR SOCIAL-MEDICAL SERVICES
(SEE ALSO FOLLOWING FOOTNOTE).

(F) INCLUDES \$266.8 MILLION FOR SOCIAL-MEDICAL SERVICES.
THESE SERVICES ARE TRANSFERRED TO THE CENTRAL GOVERNMENT
BUDGET IN 1978 FOR THE FIRST TIME.

(G) EXCLUDING SOCIAL-MEDICAL SERVICES, WHICH ARE NOT INCLUDED
IN 1977 PRELIMINARY RESULTS, INCREASE IS 22.2 PERCENT IN
OUTLAYS AND 28.8 PERCENT IN REVENUES.

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